

Health Care Tax Credit (HCTC) as it Relates to COBRA

What is HCTC

Health Coverage Tax Credit is a federal tax credit that pays 65% of the health insurance premiums for qualified individuals. The tax credit is available to:

- ▶ Participants who receive benefits through the Trade Adjustment Assistance programs (TAA) and their qualified family members.
- ▶ Pension Benefit Guaranty Corporations (PBGC) payees who are 55 years or older and their qualified family members.

How it Works

The IRS administers the HCTC program and will make the full 100% premium payment to the COBRA Administrator – WageWorks - once the participant pays their portion of the premium, 35%, to the HCTC program directly. It is important to note that WageWorks does not initiate the HCTC program; that is the responsibility of the participant. However, WageWorks will accept payments from the HCTC program on behalf of the participant.

The participant will need to review HCTC program materials to ensure that he or she meets the requirements and then elect HCTC through their employer.

The HCTC program will then contact the participant directly and will require the participant to pay the amount owed from their benefits directly to the HCTC Program. The HCTC Program will then send payment directly to WageWorks, their COBRA Administrator.

HCTC – The Facts

- ▶ HCTC was created by the Trade Act of 2002
- ▶ The TAA is a program administered by the US Department of Labor for workers who lose their jobs, or whose hours of work and wages are reduced, as a result of increased imports or shifts in company production to foreign countries.
- ▶ The PBGC is a federal corporation which insures the pension benefits of over 30,000 private sector defined benefit pension plans, created in 1974 with ERISA (Employee Retirement Income Security Act).
- ▶ Family members can also receive HCTC if they:
 - Are claimed as dependents on the participant's federal tax return
 - Meet all HCTC General Requirements
 - Are enrolled in a qualified health plan
- ▶ HCTC is most commonly paid out monthly, although yearly payments are also possible.

Changes Since ARRA

Since the Expiration of the American Recovery and Reinvestment Act (ARRA) on February 13, 2011 there were a couple of changes that impacted HCTC:

- ▶ As of March 2011, the 80% tax credit returned to 65%. For those enrolled in the HCTC, the change was effective with the March 2011 invoice.
- ▶ Former employers and COBRA Administrators are no longer required to extend the duration of COBRA Coverage for TAA Recipients and PBGC Payees.
- ▶ Qualified family members of TAA recipients and PBGC payees who enroll in Medicare, pass away, or finalize a divorce, are no longer eligible for continued HCTC eligibility following these events.
- ▶ Qualified family members can only receive the tax credit while the TAA recipient or PBGC payee is eligible and receiving the HCTC.